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SUBJECT: BASRA: ONE YEAR AFTER CHARGE OF THE KNIGHTS

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CLASSIFIED BY: Ian Sheridan, Economic Officer, ECON, State Department.

REASON: 1.4 (b), (d)

¶1. (C) Summary. One year after the Iraqi Army (IA) routed militia groups (with US and UK military help) during Operation Charge of the Knights (CoK), Basra Province has stabilized. Continued gains in security, a boost to investment, and improvements in governance appear tantalizingly possible. Violence increased again, however, shortly before the March 31 transition from British-led MND-SE to American-led MND-S command, showing that militia cells and the conditions that feed them are still present. Basrawi voters rewarded Prime Minister Maliki's decision to authorize CoK by voting heavily in January for the Da'wa-led State of Law coalition, which will govern the province with an absolute majority. The prospect of a united provincial governing team that can work well with Baghdad augurs well for a province that has suffered from divided, ineffective and corrupt government, but inexperience and schisms within State of Law cause concern. With a firmly loyal Iraqi Security Forces (ISF) and provincial government, Maliki has the opportunity to deliver peace and prosperity to a devastated, strategically vital city that is still just a shell of its former self. But Baghdad's plans for Basra are still unclear. End Summary.

The Impact of Charge of the Knights

¶2. (C) The Charge of the Knights, initiated in late March 2008, changed the fortunes of Prime Minister Maliki, Basra, and Iraq as a whole by removing Sadrists militias from the city and particularly from control over its ports and related government agencies. In recent discussions with poloff, Iraqi intel and Ministry of Defense officials estimated that pre-CoK militia revenues from Basra ran between five and ten million USD per month, and had been used to fund activities countrywide. (MoD Advisor Majid as-Sari told us that intercepted telephone conversations had indicated that the Office of the Martyr Sadr/Najaf received a two billion ID monthly share; other provincial OMS offices and SG cells also received money regularly.) These funding sources, once removed, have never been replaced. The early stages of CoK were highly disorganized and required much American and British help (ref C). This is not widely recognized by Basrawis, however, who overwhelmingly credit Maliki for the operation's success. MND-SE and MNF-I polling shows that Basrawis highly rate the ISF's ability to provide security (over 80 percent express support) and see little need for a continued American military presence beyond providing training. As a result, the aggressive ISF Provincial Operation Command center, so

controversial in other provinces for its direct links to the Prime Minister, is widely accepted in Basra. Even incoming ISCI Provincial Council (PC) member Furat al-Shar'a, a sharp Maliki detractor, praised the ISF command in a recent meeting with poloff.

Maliki's Reward

¶3. (C) The Prime Minister was rewarded for CoK with the overwhelming victory of his State of Law list, which won 20 of 35 seats in the January provincial election. Maliki's wave of post-CoK support grew gradually. In summer and fall 2008, politically non-aligned Basrawi leaders consistently complained to us about the Prime Minister, the mismanagement of \$100 million in post-CoK reconstruction funds by Dr. Safa as-Safi, and the general lack of services. But by year's end, after a few months of peace and quiet, many detractors, such as leading cleric Abdel al-Moussawi and even outgoing Governor Mohammed Wa'eli (Fadhilah), began conceding praise to the Prime Minister. Others, such as Sheikh Sabah Armash Taki al-Maliki, moved 180 degrees from indignant hostility in our June 2008 meeting (for misusing tribal support) to outspoken boosterism in early 2009 (for beginning to deliver services in the marsh areas). In the run-up to election-day, it was apparent that State of Law's stock was rising in a hurry.

¶4. (C) The province's governing team has not yet been announced, but most of our sources believe that State of Law will hold off efforts by ISCI/Badr and a motley collection of smaller parties to peel away the Da'wa-led coalition's "Independents" branch and thereby form its own ruling coalition (ref A). Southern Oil Company Chief of Operations Dayaa Jaafaf Hajham and Dr. Chaltag Abud, both from Da'wa Central, are the two leading Maliki-approved candidates who could be appointed Governor. PC members from rival parties consider the former to be the more likely choice due to his management experience and more secular

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public image. In three meetings with the REO and poloff over the past two months, Dayaa has given the impression that he would be a competent, nationalistic, U.S.-friendly technocrat. He is new to politics, however, as are nearly all the 20 new State of Law PC members, and their ability to govern effectively is open to question. State of Law's main asset will be its close relationship to the Prime Minister, and the presence of coalition-affiliated ministers in the crucial Oil, Trade, National Security, Education, and Electricity ministries.

Still Tense

¶5. (C) State of Law (as well as the incoming MND-S command) will inherit an economically devastated province in which militia violence is still feared. Basra, which until 2003 resembled Baghdad in its relatively cosmopolitan outlook, now looks and feels much more like Diwaniyah or Nasiriyah than the capital: buildings are pockmarked and crumbling, women dress mostly in abeyas, entertainment (and alcohol) is extremely difficult to find. Although indications of the more open, tolerant Basra began to emerge after CoK, in March 2009 the militias who were responsible for much of Basra's previous transformation and deterioration began to resurface. Over 50 IED explosions were recorded for the month, and sporadic rocket fire at the Coalition Operating Base returned. Many, perhaps most, of the attacks target Iraqis: on April 4, 2009 an IED was found on a downtown street where Governor Wa'eli and his motorcade were supposed to travel later that day.

¶6. (C) Militia activity is highly fractured and difficult to trace, but several sources -- Col. Hazim from Fusion Cell, Majid as-Sari from MoD, Awad al-Abdan from National Dialogue Front -- recently told us that Ketaib Hezbollah (not Jaysh al-Mahdi or its Promised Day Brigades) is the most prominent militia group operating currently in Basra. Many former insurgents have returned to Basra in recent months, risking arrest by an active

ISF corps. One OMS leader, Mohammed al-Furayji, has complained to REO staff recently that he has more members returning than he can track and control. The increase in violence and the return of former militia members have created resistance within the ISF and local Da'wa leadership to efforts by the Prime Minister's office to speed the release of Sadrists detainees.

Prospects for Growth

¶7. (C) Basrawis universally emphasize that jobs and economic growth are key to stopping militia activity in the long-term -- and vice-versa. Broad-based economic growth should eventually take the critically important young male population off the street; more security, in turn, will set the stage for investment. According to the PRT economic team, visits by investors to the Province, the Basra Investment Commission and the PRT are now running at about three per week, compared with few or none eight months ago. And they're not just interested in oil and gas, but also hotels, the airport, the port, a steel plant, and other things. However, there has been little actual investment so far. While some investment projects are ready, submitted and awaiting approval, many prospective investors indicate that they will need to see more durable and sustainable stability and growth before they commit themselves to Basra.

¶8. (C) The oil sector is central to both Basra and Iraq in general. Around two-thirds of Iraq's GDP and 90% of GOI revenue is obtained from this sector; of this, about 70% of reserves and 85% of exports go through Basra Province. However, while the oil is largely located in Basra, decisions related to the sector are out of the province's hands. With the exception of oil and gas service contracts, big oil and gas projects are negotiated in Baghdad, not Basra. Nonetheless, oil services companies are determined to establish a presence in Basra, and are ready to improve South Oil Company's failing production infrastructure.

Iran Investment Controversial

¶9. (C) Investment by Iraq's neighbor to the east is more controversial and, to most, far less welcome. Iranian investment interest in the region has increased in the past year -- most visibly through the Basra Investment Commission's February approval of a \$1.5 billion license for an Iranian company to build housing and hotels (ref A). This project still awaits GOI final approval, and we have heard that the original investment could be scaled back from around \$1.5 billion to perhaps around \$700 million. Many contacts blame Iranian real estate purchases for having increased the price of housing in Basra; likewise, Iranian agriculture is blamed for undercutting local competition. Basrawis, who suffered disproportionately during the Iran-Iraq War, are generally uncomfortable with any Iranian influence, even apparently legitimate economic activity. Fears of Iranian control helped sink Governor Wa'eli's late

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2008 efforts to force a referendum on region formation, since most residents were not confident in the ability of a prospective Basra Regional Government to defend itself (ref B). Anti-Iranian sentiment also sunk the electoral chances of the ISCI/Badr-led Shahid al-Mihrab list, which fell from 20 provincial council seats to five in the January election.

The ISF

¶10. (C) Iranian training and supplying of insurgents continues, and Basrawis almost universally welcome American training of the ISF to combat this threat. The Basra ISF, led by 14th IA Commander MG Abd al-Aziz al-Dalmi, are widely respected in the province; their success in providing security during the provincial election season only enhanced their reputation. The ISF in Basra, and especially the IP, are a delicate mix of Sunni and Shi'a, Badr members and hypernationalists, tribal and urban, Da'wa and Fadhilah. ISF reform will be contentious within the

new government, since many have called for the removal of Badr members while other press for the reinstatement of Ba'athists. Incoming council members Furat al-Shara (ISCI) and Hassan al-Rashid (Badr) recognized the dilemma in meetings with poloff. If the Prime Minister and the ISF command are able to remove ISCI/Badr members as they prefer, it could affect security, since Badr still receives funding from Iran.

Comment

¶11. (C) Its security gains suggest that, for Basra, the cup is half full. However, it does not follow that filling the rest will be easy or rapid. Investors will be cautious. The province faces a long slog to generate growth from its own sources, especially in the absence of a mature banking system or a national strategy to assist agriculture. According to the PRT, the new Provincial Council faces a fiscal dead-end; it appears that its 2009 capital budget will not even cover existing contract commitments. The PRT can build on some UK initiatives, especially its aid to the Basra Investment Commission and its business microcredit program. It will also get a shot in the arm with access to U.S. military resources for reconstruction. The new Provincial Council must face high expectations in a dilapidated city, where corruption and bad management continue to obstruct good government. The real impetus must come from a smart Provincial Government and local entrepreneurs. We will continue to work with them, while reminding them that USG funds are dwindling and our focus is on the GOI's own capacity-building. End comment.

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